

WORK ACTIVITY CENTER

**Consolidated Financial Statements and
Independent Auditors' Report
Year Ended June 30, 2006 and 2005**

WORK ACTIVITY CENTER

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INDEPENDENT AUDITORS' REPORT


To the Board of Directors
Work Activity Center
West Valley City, Utah

We have audited the accompanying consolidated statements of financial position of Work Activity Center (a not-for-profit organization) as of June 30, 2006 and 2005, and the related consolidated statements of activities, consolidated statements of functional expenses, and consolidated cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Work Activity Center at June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2006, on our consideration of Work Activity Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.


Karren, Hendrix, Stagg, Allen & Company
September 25, 2006

CERTIFIED PUBLIC ACCOUNTANTS

WORK ACTIVITY CENTER

Consolidated Statements of Financial Position June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 823,485	\$ 702,859
Cash, temporarily restricted	15,072	884
Accounts receivable	341,021	306,339
Inventory	25,627	28,344
Prepaid expenses	53,411	56,906
Total current assets	<u>1,258,616</u>	<u>1,095,332</u>
PROPERTY AND EQUIPMENT, NET	<u>1,351,160</u>	<u>1,429,519</u>
OTHER ASSETS		
Intangible assets, net amortization of \$30,000 and \$15,000	15,000	30,000
Investments	20,078	18,903
Deposits	40	5,040
Total other assets	<u>35,118</u>	<u>53,943</u>
Total assets	<u>\$ 2,644,894</u>	<u>\$ 2,578,794</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 44,304	\$ 39,562
Accrued payroll and related taxes	94,669	86,844
Accrued annual leave	61,648	61,257
Current installments on notes payable	46,249	47,294
Total current liabilities	<u>246,870</u>	<u>234,957</u>
LONG TERM DEBT		
Notes payable, excluding current installments	<u>648,888</u>	<u>694,805</u>
Total liabilities	<u>895,758</u>	<u>929,762</u>
NET ASSETS		
Unrestricted	1,734,064	1,648,148
Temporarily restricted	15,072	884
Total net assets	<u>1,749,136</u>	<u>1,649,032</u>
Total liabilities and net assets	<u>\$ 2,644,894</u>	<u>\$ 2,578,794</u>

The notes to the financial statements are an integral part of this statement.

WORK ACTIVITY CENTER

Consolidated Statement of Activities For the Year Ended June 30, 2006

	Unrestricted	Temporarily Restricted	2006 Total
REVENUE AND SUPPORT			
Grants	\$ -	\$ 53,266	\$ 53,266
Contributions	6,927	-	6,927
Day training - state contracts	1,498,020	-	1,498,020
Day training - other	41,012	-	41,012
Transportation	253,036	-	253,036
Residential - state contracts	1,112,178	-	1,112,178
Residential - other	171,188	-	171,188
Supported employment - state contracts	170,927	-	170,927
Supported employment - other	6,901	-	6,901
Work activity projects	164,277	-	164,277
Investment income	24,008	-	24,008
Other income	62,006	-	62,006
Intensive employments services	16,738	-	16,738
School district services	6,298	-	6,298
SJBT, State of Utah	201,358	-	201,358
Interpreting services	1,715	-	1,715
Other income, Covenant	301	-	301
Assets released from restrictions	39,078	(39,078)	-
Total revenue and support	<u>3,775,968</u>	<u>14,188</u>	<u>3,790,156</u>
EXPENSES			
Program services			
Work activity and training	2,945,418	-	2,945,418
Transportation	563,107	-	563,107
Supporting services			
Management and general	178,270	-	178,270
Fund raising	3,257	-	3,257
Total expenses	<u>3,690,052</u>	<u>-</u>	<u>3,690,052</u>
INCREASE IN NET ASSETS	85,916	14,188	100,104
NET ASSETS, BEGINNING OF YEAR	<u>1,648,148</u>	<u>884</u>	<u>1,649,032</u>
NET ASSETS, END OF YEAR	<u>\$ 1,734,064</u>	<u>\$ 15,072</u>	<u>\$ 1,749,136</u>

The notes to the financial statements are an integral part of this statement

WORK ACTIVITY CENTER

Consolidated Statement of Activities For the Year Ended June 30, 2005

	Unrestricted	Temporarily Restricted	2005 Total
REVENUE AND SUPPORT			
Grants	\$ -	\$ 7,914	\$ 7,914
Contributions	10,776	-	10,776
Day training, state contracts	1,609,487	-	1,609,487
Day training, other	41,288	-	41,288
Transportation	265,927	-	265,927
Residential, state contracts	1,005,218	-	1,005,218
Residential, other	168,427	-	168,427
Supported employment, state contracts	169,865	-	169,865
Supported employment, other	5,230	-	5,230
Work activity projects	69,485	-	69,485
Investment income	13,805	-	13,805
Other income	59,289	-	59,289
Intensive employments services	7,600	-	7,600
School district services	1,666	-	1,666
SJBT, State of Utah	128,478	-	128,478
Interpreting services	3,236	-	3,236
Assets released from restrictions	8,949	(8,949)	-
Total revenue and support	<u>3,568,726</u>	<u>(1,035)</u>	<u>3,567,691</u>
EXPENSES			
Program services			
Work activity and training	2,806,294	-	2,806,294
Transportation	533,715	-	533,715
Supporting services			
Management and general	180,654	-	180,654
Fund raising	3,130	-	3,130
Total expenses	<u>3,523,793</u>	<u>-</u>	<u>3,523,793</u>
INCREASE IN NET ASSETS	44,933	(1,035)	43,898
NET ASSETS, BEGINNING OF YEAR	<u>1,603,215</u>	<u>1,919</u>	<u>1,605,134</u>
NET ASSETS, END OF YEAR	<u>\$ 1,648,148</u>	<u>\$ 884</u>	<u>\$ 1,649,032</u>

The notes to the financial statements are an integral part of this statement.

WORK ACTIVITY CENTER

Consolidated Statement of Functional Expenses For the Year Ended June 30, 2006

	2006						
	Program Services			Supporting Services			
	Work Activity	Covenant	Subtotal	Trans- portation	Management & General	Fund Raising	Total
Salaries	\$ 1,759,570	\$ 163,063	\$ 1,922,633	\$ 279,202	\$ 107,599	\$ -	\$ 2,309,434
Payroll taxes	213,498	16,057	229,555	-	-	-	229,555
Employee benefits	144,597	1,454	146,051	-	-	-	146,051
Total salaries and related expenses	2,117,665	180,574	2,298,239	279,202	107,599	-	2,685,040
Professional fees and service contracts	23,817	55,466	79,283	-	12,107	99	91,489
Office supplies, printing, and publications	11,440	3,326	14,766	-	9,092	206	24,064
Postage	2,407	348	2,755	-	1,658	-	4,413
Telephone	8,755	3,338	12,093	7,134	7,548	-	26,775
Occupancy	153,451	4,544	157,995	-	-	-	157,995
Supplies, repairs, and maintenance	130,497	257	130,754	29,010	-	-	159,764
Insurance	43,933	1,008	44,941	27,917	-	-	72,858
Transportation	-	-	-	207,850	-	-	207,850
Program supplies and services	52,104	59	52,163	-	2,810	2,952	57,925
Equipment rental	682	-	682	-	1,728	-	2,410
Food	109	-	109	-	-	-	109
Travel, conferences, and meetings	11,222	2,431	13,653	237	3,000	-	16,890
Interest	29,756	-	29,756	-	26,528	-	56,284
Bad debts	-	-	-	-	871	-	871
Miscellaneous	8,543	353	8,896	-	3,719	-	12,615
Depreciation/Amortization	80,333	19,000	99,333	11,757	1,610	-	112,700
Total expenses	\$ 2,674,714	\$ 270,704	\$ 2,945,418	\$ 563,107	\$ 178,270	\$ 3,257	\$ 3,690,052

The notes to the financial statements are an integral part of this statement.

WORK ACTIVITY CENTER

Consolidated Statement of Functional Expenses For the Year Ended June 30, 2005

	2005						
	Program Services			Supporting Services			
	Work Activity	Covenant	Subtotal	Trans- portation	Management & General	Fund Raising	Total
Salaries	\$ 1,691,211	\$ 114,810	\$ 1,806,021	\$ 256,359	\$ 107,233	\$ -	\$ 2,169,613
Payroll taxes	186,412	9,458	195,870	-	-	-	195,870
Employee benefits	164,183	4,967	169,150	-	-	-	169,150
Total salaries and related expenses	2,041,806	129,235	2,171,041	256,359	107,233	-	2,534,633
Professional fees and service contracts	17,760	37,960	55,720	-	11,511	88	67,319
Office supplies, printing, and publications	10,462	2,571	13,033	-	9,221	555	22,809
Postage	1,743	129	1,872	-	957	-	2,829
Telephone	10,604	1,921	12,525	7,248	9,172	-	28,945
Occupancy	193,937	5,145	199,082	-	-	-	199,082
Supplies, repairs, and maintenance	124,938	40	124,978	30,758	-	429	156,165
Insurance	46,056	379	46,435	29,821	-	-	76,256
Transportation	-	-	-	196,755	-	-	196,755
Program supplies and services	37,162	100	37,262	-	2,815	2,058	42,135
Equipment rental	652	-	652	-	1,765	-	2,417
Food	59	-	59	-	-	-	59
Travel, conferences, and meetings	10,764	1,956	12,720	275	2,304	-	15,299
Interest	30,621	-	30,621	-	29,367	-	59,988
Miscellaneous	8,923	295	9,218	-	3,659	-	12,877
Depreciation/Amortization	73,077	17,999	91,076	12,499	2,650	-	106,225
Total expenses	\$ 2,608,564	\$ 197,730	\$ 2,806,294	\$ 533,715	\$ 180,654	\$ 3,130	\$ 3,523,793

The notes to the financial statements are an integral part of this statement.

WORK ACTIVITY CENTER

Consolidated Statements of Cash Flows For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 100,104	\$ 43,898
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation/Amortization	112,700	106,226
Net realized and unrealized gains on investments	(1,175)	(3,996)
(Increase) decrease in operating assets		
Accounts receivable	(34,682)	(31,450)
Inventory	2,717	(11,571)
Prepaid expenses	3,495	(8,402)
Deposits	5,000	-
Increase in operating liabilities		
Accounts payable and accrued expenses	12,958	38,129
Net cash flows provided by operating activities	<u>201,117</u>	<u>132,834</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Intangible assets	-	(45,000)
Purchase of capital assets	(19,341)	(65,550)
Net cash flows used by investing activities	<u>(19,341)</u>	<u>(110,550)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of notes payable	(46,962)	(43,734)
Net cash flows used by financing activities	<u>(46,962)</u>	<u>(43,734)</u>
NET (DECREASE) INCREASE IN CASH	134,814	(21,450)
CASH, BEGINNING OF YEAR	<u>703,743</u>	<u>725,193</u>
CASH, END OF YEAR	<u>\$ 838,557</u>	<u>\$ 703,743</u>

Supplemental disclosure of cash flow information:

Cash paid for interest in 2006 and 2005 was \$56,284 and \$59,988, respectively.
No income taxes were paid.

STATEMENTS OF CASH BALANCES

Cash, unrestricted	\$ 823,485	\$ 702,859
Cash, temporarily restricted	<u>15,072</u>	<u>884</u>
	<u>\$ 838,557</u>	<u>\$ 703,743</u>

The notes to the financial statements are an integral part of this statement.

WORK ACTIVITY CENTER

Notes to the Consolidated Financial Statements June 30, 2006 and 2005

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Work Activity Center is a not-for-profit corporation organized and operated in accordance with the provisions of Utah law. The Center provides training, supervised residential living, outside supported employment opportunities, in-house work opportunities, and other activities for handicapped adults. Covenant Employment Services is a limited liability company fully owned and operated by the Work Activity Center, fully formed in accordance with the provisions of Utah law. Covenant provides intensive job training services for adults. Over 90% of the entities' income is from fees for service contracts with the State of Utah Department of Human Services, Division of Services for People with Disabilities.

Consolidated Financial Statements

On October 1, 2004, Work Activity Center acquired Covenant Employment Services for \$65,000. The combination was accounted for by the purchase method and resulted in the recording of an intangible asset in the amount of \$45,000 for future contract values. The intangible asset will be amortized over its expected contractual life of 3 years using the straight line method. The accompanying financial statements include operations of Covenant Employment Services for the period October 1, 2004, through June 30, 2005, as well as for the year ended June 30, 2006.

Method of Accounting

The accompanying financial statements have been prepared in accordance with the *Standards for Not-For-Profit Organizations Audit and Accounting Guide* issued by the American Institute of Certified Public Accountants. They also comply with the Statement of Financial Accounting Standards (SFAS) No. 117, issued by the Financial Accounting Standards Board (FASB). They are stated on the accrual basis and include all material assets and liabilities of the Center. Functional expenses are allocated to program and supporting services using estimates provided by management.

Cash and Cash Equivalents

For financial statement purposes, the Center considers all certificates of deposit and money market funds purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year end will be immaterial.

Property and Equipment

Purchased assets over \$1,000 are recorded at cost. Donated assets over \$1,000 are recorded at fair market value on the date of contribution. Depreciation and amortization are computed by use of the straight-line method using the estimated useful lives of each class of assets. Expenditures for major renovations and betterments, which extend the useful lives, are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation expense for 2006 and 2005 was \$97,700 and \$91,226, respectively.

Inventory

Inventories are accounted for on the first-in, first-out basis, and are valued at lower-of-cost or market. Inventories primarily consist of raw materials used in the training of clients.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Restricted donations that are received and released in the same year are shown as unrestricted. Unused portions are recognized as temporarily restricted until intended use is met.

Income Taxes

No amounts have been paid or accrued on the financial statements for income taxes. Work Activity Center is exempt from income taxes based on the provisions of the Internal Revenue Code 501(c)(3). Net income or loss from Covenant Employment services passes through to Work Activity Center as sole owner of the LLC, and is thus exempt from income taxes as well.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Investments

Generally accepted accounting principles require that nonprofit organizations report certain investments at fair value. In accordance with that guidance, the Association accounts for its marketable equity securities at fair value as shown in quoted stock prices. Information about the fair value of investments and the unrealized gains and losses is discussed in Note 2.

2. INVESTMENTS

Investments consist of the following at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Common stock - at fair market value	<u>\$ 20,078</u>	<u>\$ 18,903</u>
Dividends and interest	\$ 196	\$ 183
Net realized and unrealized gains and losses	<u>1,175</u>	<u>3,996</u>
Total return on investment	<u>\$ 1,371</u>	<u>\$ 4,179</u>

3. PROPERTY AND EQUIPMENT, NET

A summary of property and equipment at June 30, 2006 and 2005, is as follows:

<u>Classification</u>	<u>Life</u>	<u>Cost Basis</u>	
		<u>2006</u>	<u>2005</u>
Land and improvements		\$ 262,757	\$ 262,757
Building and improvements	5-30 years	1,825,963	1,806,622
Leasehold improvements	3-5 years	102,168	102,168
Office furniture and equipment	5-6 years	121,054	121,054
Training equipment	5-6 years	56,363	56,363
Transportation equipment	3-6 years	158,574	158,574
		<u>2,526,879</u>	<u>2,507,538</u>
Less accumulated depreciation		<u>(1,175,719)</u>	<u>(1,078,019)</u>
Total property and equipment		<u>\$ 1,351,160</u>	<u>\$ 1,429,519</u>

4. NOTES PAYABLE

As of June 30, 2006 and 2005, notes payable are as follows:

	<u>2006</u>	<u>2005</u>
Note payable to Bank One due in monthly installments of \$4,192 including interest at 9.05% through December 2014, secured by land and building in West Valley City, Utah	\$ 270,952	\$ 303,544
Note payable to GMAC Mortgage Corp due in monthly installments of \$480 including interest at 6.625% through December 2028, secured by land and building in West Valley City, Utah	48,613	51,066
Note payable to GMAC Mortgage Corp due in monthly installments of \$672 including interest at 6.625% through December 2028, secured by land and building in Salt Lake City, Utah	92,021	93,924
Note payable to Washington Mutual due in monthly installments of \$1,185 including interest at 6.625% through December 2028, secured by land and building in West Valley City, Utah	163,433	166,701
Note payable to Washington Mutual due in monthly installments of \$915 including interest at 7.50% through July 2029, secured by land and building in Salt Lake City, Utah	120,118	122,007
Note payable to Key Bank, N.A. due in monthly installments of \$459 including interest at 5.84% through June 9, 2006, secured by a 2003 vehicle	-	4,857
	<u>695,137</u>	<u>742,099</u>
Less current installments	<u>(46,249)</u>	<u>(47,294)</u>
Notes payable, excluding current installments	<u>\$ 648,888</u>	<u>\$ 694,805</u>

Maturities of notes payable in each of the next five years and thereafter are as follows:

2007	46,249
2008	50,366
2009	54,855
2010	59,749
2011	65,085
Thereafter	<u>418,833</u>
	<u>\$ 695,137</u>

5. WORK ACTIVITY PROJECTS

Handicapped adults at the Center participate in a variety of work activities (contract custodial services, manufacturing of goods for sale, salvage activities, etc.), which result in revenues to the Center. Those individuals are compensated in accordance with Department of Labor requirements.

6. LEASE AND RENTAL COMMITMENTS

Work Activity Center has entered into two operating lease agreements for rental space and transportation equipment. A number of rental payments are made for similar agreements on a month to month basis. These agreements do not contractually bind Work Activity Center for future payments, and are thus not disclosed as future obligation requirements. The lease agreements will expire at different dates and are expected to be renewed before expiration. The lease and rental expense was \$114,664 and \$153,665 for 2006 and 2005, respectively. The following is a schedule of future minimum payments for the leases:

2007	7,200
2008	7,200
2009	7,200
2010	<u>7,200</u>
	<u>\$ 28,800</u>

7. RETIREMENT PLAN

Effective July 1, 1996, the Center established a 403 (b) Tax Deferred Annuity Plan for eligible employees twenty-one years of age or older. To be eligible, an employee must work full time and must have worked for the Center for at least one full year. The Center will match employee contributions at 50% up to 10% of the employee's total wages. The Center has also contributed a discretionary \$25.00 per month to all employees who join the plan. Employer contributions are fully vested after six years of service, and increase in 20% increments during the second to fifth year. Center expense for the plan was \$26,324 in 2006 and \$26,788 in 2005.

8. CONCENTRATIONS OF CREDIT RISK

Work Activity Center receives most of its income from fees for service contracts with the State of Utah Department of Human Services, Division of Services for People with Disabilities. If there should be a major cutback in the Department of Human Services, it could materially affect the operations of the Center.

9. UNINSURED CASH BALANCES

Work Activity Center maintains cash balances in various accounts. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000 for each account. At June 30, 2006, the Center's uninsured cash balances totaled \$763,889.

10. COVENANT EMPLOYMENT SERVICES, LLC

On September 20, 2004, Work Activity Center created Covenant Employment Services, LLC and purchased certain assets of Covenant Job Supportive Services, LLC. Activities from the date of acquisition through June 30, 2005, and from July 1, 2005 through June 30, 2006 are included in these financial statements. The purchase agreement between Covenant Employment Services, LLC and the seller required a down payment of \$65,000. It also requires quarterly payments of 8% of gross revenues of contracts acquired. Payments are accrued and paid quarterly through June 2012, with a maximum revenue percentage payout of \$270,000.

11. RESTRICTIONS ON NET ASSETS

Work Activity Center has received various grants from multiple organizations that are restricted in use for specific programs or construction of specific assets. These funds are tracked and reported separately in the financial statements.

12. INTANGIBLE ASSETS

Intangible assets, consisting of contractual agreements for employment services, are amortized using the strait-line method over three years. The recoverability of intangible assets is periodically reviewed to determine whether adjustments are needed to carrying values. There were no adjustments for the year ended June 30, 2005 and June 30, 2006. Amortization expense for the year ended June 30, 2006 and 2005 was \$15,000 each year. Estimated amortization expense for each of the next year is also \$15,000.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Work Activity Center

We have audited the financial statements of Work Activity Center (a not-for-profit organization) as of and for the year ended June 30, 2006, and have issued our report thereon dated September 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

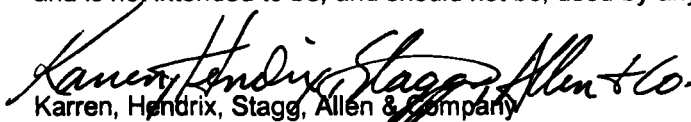
In planning and performing our audit, we considered Work Activity Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Work Activity Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Work Activity Center in a separate letter dated September 25, 2006.

This report is intended solely for the information and use of management and Board of Directors, and is not intended to be, and should not be, used by anyone other than these specified parties.


Karren, Hendrix, Stagg, Allen & Company
September 25, 2006

CERTIFIED PUBLIC ACCOUNTANTS



KARREN | HENDRIX | STAGG | ALLEN
COMPANY

A Professional Corporation

Duane C. Karren, Ret.

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INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE

To the Board of Directors
Work Activity Center

We have audited the financial statements of Work Activity Center, a not-for-profit corporation, for the year ended June 30, 2006, and have issued our report thereon dated September 25, 2006. As part of our audit, we have audited Work Activity Center's compliance with the requirements governing types of services and their allowed or un-allowed eligibility, matching, level of effort or earmarking, reporting, and special tests and provisions applicable to each of its major state assistance programs as required by the State of Utah Legal Compliance Audit Guide for the years ended June 30, 2006 and 2005. Work Activity Center received the following major assistance programs from the State of Utah:

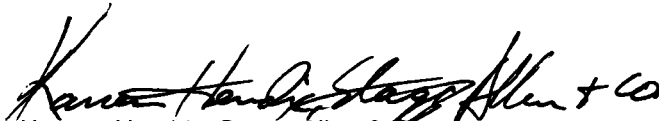
Program Support and transportation provided to handicapped adults. Funds are provided by the Department of Health and Human Services of the State of Utah.

The management of Work Activity Center is responsible for its compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Work Activity Center's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Work Activity Center complied, in all material respects, with the requirements governing types of services and their allowed or un-allowed eligibility, matching, level of effort or earmarking, reporting, and special tests and provisions that are applicable to each of its major state assistance programs for the years ended June 30, 2006 and 2005.


Karren, Hendrix, Stagg, Allen & Company
September 25, 2006

CERTIFIED PUBLIC ACCOUNTANTS